

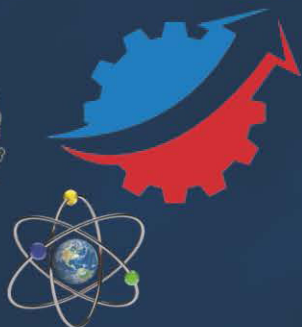
# MUHANDISLIK

## & IQTISODIYOT

*ijtimoiy-iqtisodiy, innovatsion texnik,  
fan va ta'limga oid ilmiy-amaliy jurnal*

### 2026-YIL

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ТАШКЕНТСКИЙ ФИЛИАЛ



# muhandislik & iqtisodiyot

ijtimoiy-iqtisodiy, innovatsion texnik,  
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- 10.00.06 – Qiyosiy adabiyotshunoslik, chog'ishtirma tilshunoslik va tarjimashunoslik
- 10.00.04 – Yevropa, Amerika va Avstraliya xalqlari tili va adabiyoti
- 08.00.01 – Iqtisodiyot nazariyasi
- 08.00.02 – Makroiqtisodiyot
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- 08.00.07 – Moliya, pul muomalasi va kredit
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- 08.00.11 – Marketing
- 08.00.12 – Mintaqaviy iqtisodiyot
- 08.00.13 – Menejment
- 08.00.14 – Iqtisodiyotda axborot tizimlari va texnologiyalari
- 08.00.15 – Tadbirkorlik va kichik biznes iqtisodiyoti
- 08.00.16 – Raqamli iqtisodiyot va xalqaro raqamli integratsiya
- 08.00.17 – Turizm va mehmonxona faoliyati

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# MUNDARIJA

|                                                                                                                                                                               |     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| XO'JALIK YURITUVCHI SUBYEKTLARNING LIKVIDLILIGINI TA'MINLASH MASALALARI.....                                                                                                  | 10  |
| <b>Bauyetdinov M.J.</b>                                                                                                                                                       |     |
| O'ZBEKISTON RESPUBLIKASIDA OLIY TA'LIM TIZIMINI MODERNIZATSIYA QILISH STRATEGIYASI.....                                                                                       | 18  |
| <b>Usmanova Zumrad Islamovna, Xasanova Yulduz Kayumovna</b>                                                                                                                   |     |
| TOKLI O'TKAZGICHLARDA MAGNIT MAYDON INDUKSIYASINING NAZARIY TAHLILI .....                                                                                                     | 23  |
| <b>O'ngboyev Anvar, Umarov Uyg'un, Dusiyorov Jaxongir, Jonimqulov Mirtemur</b>                                                                                                |     |
| QISHLOQ XO'JALIGIDA SUV RESURLARINI BOSHQARISHNING INNOVATSION MEXANIZMLARINI TAKOMILLASHTIRISH.....                                                                          | 30  |
| <b>Akbarova Shaxnoza Yakub qizi</b>                                                                                                                                           |     |
| IQLIM O'ZGARISHI SHAROITIDA ASALARICHILIK TARMOG'I SAMARADORLIGINI OSHIRISHDA DAVLAT QO'LLAB-QUVVATLASH MEXANIZMLARINI TAKOMILLASHTIRISH .....                                | 33  |
| <b>Farmanov Jonibek Ziyadullayevich</b>                                                                                                                                       |     |
| BILVOSITA SOLIQLARNI MA'MURIY BOSHQARISH TIZIMINI TAKOMILLASHTIRISH YO'NALISHLARI ....                                                                                        | 38  |
| <b>Mansurova Arofatxon Shavkat qizi</b>                                                                                                                                       |     |
| BANKLARNING MOLIYAVIY BARQARORLIGINI XALQARO USULLAR VA MEZONLAR ASOSIDA BAHOLASHNI TAKOMILLASHTIRISH.....                                                                    | 43  |
| <b>G'aybulloyev Suxrob Odil o'g'li</b>                                                                                                                                        |     |
| IDEMPOTENT O'LCHOVLAR SIMPLEKSIDA ANIQLANGAN CHIZIQLI OPERATORLAR DINAMIKASINING EKOLOGIK MODELLASHTIRISHDAGI TATBIQI .....                                                   | 50  |
| <b>Karimov Muzaffar Musaxonovich, Karimova Shalola Musayevna</b>                                                                                                              |     |
| AGROTECHNICAL AND INNOVATIVE STRATEGIES FOR ENHANCING GRAIN PRODUCTION EFFICIENCY. ....                                                                                       | 56  |
| <b>Turayeva Gulizahro</b>                                                                                                                                                     |     |
| BANKLARDA RAQAMLI TEXNOLOGIYALAR ASOSIDA XIZMAT KO'RSATISH SIFATINI OSHIRISH .....                                                                                            | 60  |
| <b>Asemova Rano Japbarbergenovna</b>                                                                                                                                          |     |
| ПРОГНОЗИРОВАНИЕ ПОКАЗАТЕЛЕЙ ПРОДОВОЛЬСТВЕННОЙ БЕЗОПАСНОСТИ РЕСПУБЛИКИ УЗБЕКИСТАН НА ОСНОВЕ СЦЕНАРНОГО АНАЛИЗА РАЗВИТИЯ АПК.....                                               | 66  |
| <b>Ли Марина Рудольфовна</b>                                                                                                                                                  |     |
| POLIMER VA UGLEROD NANOTOLALI MODIFIKATORLAR ASOSIDA BITUM KOMPOZITSIYALARINING REOLOGIK, MIKROTUZILMAVIY VA ADGEZION XOSSALARINI TAKOMILLASHTIRISHNING QIYOSIY TAHLILI ..... | 70  |
| <b>Hasanov Bahrom Bo'ronovich</b>                                                                                                                                             |     |
| XORIJIY TADBIRKORLIK RIVOJLANISHIGA XALQARO IQTISODIY INTEGRATSIYANING TA'SIRI.....                                                                                           | 76  |
| <b>Mamatraimov Islom Mamanazarovich</b>                                                                                                                                       |     |
| SULFIDLI POLIMETALL RUDALARNI SELEKTIV FLOTATSIYALASHDA YANGI AVLOD REAGENTLARINI QO'LLASHNING TEXNOLOGIK YECHIMLARI TAHLILI.....                                             | 79  |
| <b>Xushvaqтова Zamira Hikmatulloyevna, Saidaxmedov Aktam Abdisamiyevich</b>                                                                                                   |     |
| LOGICLABUZ: A BROWSER-NATIVE CO-SIMULATION PLATFORM FOR THE VIRTUALIZATION OF MULTI-MCU ROBOTIC SYSTEMS .....                                                                 | 84  |
| <b>Ergashev Adizbek Kamol ugli</b>                                                                                                                                            |     |
| DUBAY IQTISODIYOTINING DIVERSIFIKATSIYALASHUV BOSQICHLARI VA UNDAN O'ZBEKISTONDA FOYDALANISH IMKONIYATLARI .....                                                              | 94  |
| <b>Dilmira Abdumalikovna Shamusarova</b>                                                                                                                                      |     |
| MINTAQADA TIBBIY TURIZMNI RIVOJLANTIRISHNING XALQARO MODELLARI.....                                                                                                           | 99  |
| <b>Yusupova Mehrigon O'ktamovna</b>                                                                                                                                           |     |
| EKONOMETRIK MODELLARNI TANLASH VA ULARNING SIFATINI BAHOLASHDA INTEGRAL MEZONNI QO'LLASH .....                                                                                | 104 |
| <b>Turayev Baxtiyor Ergashevich</b>                                                                                                                                           |     |



|                                                                                                                                                        |     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| PHP VA SUN'YI INTELLEKT SINERGIYASI: LARAVEL ASOSIDA INTELLEKTUAL VEB-TIZIMLARNI LOYIHALASH ARXITEKTURASI.....                                         | 110 |
| <b>Jo'rayev To'xtasin, Abdusattarov Odiljon, Boymatov Mexrojiddin, Temirova Orifa, Yuldashboyev Shermuxammad</b>                                       |     |
| CORPORATE GOVERNANCE QUALITY, FOREIGN DIRECT INVESTMENT, AND ECONOMIC GROWTH: A PANEL ECONOMETRIC ANALYSIS OF CENTRAL ASIAN COUNTRIES (2003–2024)..... | 119 |
| <b>Yusufjon Pulatov</b>                                                                                                                                |     |



# CORPORATE GOVERNANCE QUALITY, FOREIGN DIRECT INVESTMENT, AND ECONOMIC GROWTH: A PANEL ECONOMETRIC ANALYSIS OF CENTRAL ASIAN COUNTRIES (2003–2024)

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**Abstract:** This study examines the relationship between governance quality, foreign direct investment (FDI), and economic growth in Central Asia from 2003 to 2024. The research utilizes the Bertelsmann Transformation Index (BTI) and a random-effects GLS panel model to analyze the direct and indirect effects of governance reforms on growth through foreign direct investment (FDI). The results demonstrate that improvements in governance are positively associated with FDI inflows, though insignificantly, indicating that existing institutional reforms have not yet increased the ability to attract investment. Similarly, foreign direct investment brings about a positive and modest impact on economic growth, suggesting limited spillover benefits. When all factors are analyzed simultaneously, governance demonstrates a significant negative short-term impact on growth, while the indirect effect via FDI remains weak. The results indicate that Central Asia is still in a transitional phase and implementing its governance reforms, while foreign direct investment continues to rely on resources. To transform developments in governance into sustainable, investment-driven growth, it is essential to enhance institutional confidence, diversify investments, and improve public sector efficiency.

**Key words:** governance, Foreign Direct Investment, BTI Index, economic growth, reforms, Central Asia.

**Annotatsiya:** Mazkur tadqiqotda 2003–2024-yillar davomida Markaziy Osiyo mamlakatlarida boshqaruv sifati, to'g'ridan to'g'ri xorijiy investitsiyalar (TXI) va iqtisodiy o'sish o'rtaidagi bog'liqlik tahlil qilingan. Tadqiqotda boshqaruv islohotlarining iqtisodiy o'sishga TXI orqali ko'rsatadigan bevosita va bilvosita ta'sirini baholash uchun Bertelsmann Transformation Index (BTI) hamda tasodifiy effektlarga asoslangan GLS panel modeli qo'llanilgan. Natijalar boshqaruv sifatining yaxshilanishi TXI oqimlariga ijobiy ta'sir ko'rsatishini, biroq ushbu bog'liqlik statistik jihatdan ahamiyatli emasligini ko'rsatdi. Bu esa mavjud institutsional islohotlar investitsiyalarni jalb qilish salohiyatini hali yetarli darajada oshirmaganligini anglatadi. Shuningdek, to'g'ridan to'g'ri xorijiy investitsiyalar iqtisodiy o'sishga ijobiy, ammo nisbatan cheklangan ta'sir ko'rsatishi aniqlandi, bu esa investitsiyalarning qo'shimcha samaralari hali to'liq namoyon bo'lmaganligini bildiradi. Barcha omillar birgalikda tahlil qilinganda, boshqaruv sifati iqtisodiy o'sishga qisqa muddatda sezilarli salbiy ta'sir ko'rsatishi, TXI orqali yuzaga keladigan bilvosita ta'sir esa zaifligicha qolishi aniqlandi. Olingan natijalar Markaziy Osiyo mamlakatlari hali ham institutsional transformatsiya bosqichida ekanligini va xorijiy investitsiyalar oqimi asosan resurslarga tayanayotganligini ko'rsatadi. Boshqaruv sohasidagi yutuqlarni barqaror va investitsiyalarga asoslangan iqtisodiy o'sishga aylantirish uchun institutsional ishonchni mustahkamlash, investitsiyalarni diversifikatsiya qilish hamda davlat sektori samaradorligini oshirish zarur.

**Kalit so'zlar:** boshqaruv sifati, to'g'ridan to'g'ri xorijiy investitsiyalar, BTI indeksi, iqtisodiy o'sish, islohotlar, Markaziy Osiyo.

**Аннотация:** В данном исследовании рассматривается взаимосвязь между качеством государственного управления, прямыми иностранными инвестициями (ПИИ) и экономическим ростом в странах Центральной Азии за период 2003–2024 годов. Для анализа прямого и косвенного влияния реформ государственного управления на экономический рост через приток ПИИ использованы Индекс трансформации Бертельсмана (BTI) и панельная модель случайных эффектов GLS. Результаты показывают, что улучшение качества управления положительно связано с притоком ПИИ, однако данная связь является статистически незначимой, что свидетельствует о том, что существующие институциональные реформы пока не обеспечили существенного повышения инвестиционной привлекательности региона. Аналогично, прямые иностранные инвестиции оказывают положительное, но умеренное влияние на экономический рост, указывая на ограниченный характер сопутствующих эффектов. При одновременном анализе всех факторов качество управления демонстрирует значимое отрицательное краткосрочное воздействие на экономический рост, тогда как косвенный эффект через ПИИ остаётся слабым. Полученные результаты свидетельствуют о том, что страны Центральной Азии продолжают находиться на

этапе институциональной трансформации, а приток иностранных инвестиций по-прежнему во многом зависит от ресурсного сектора. Для преобразования достижений в сфере государственного управления в устойчивый инвестиционно-ориентированный экономический рост необходимо укреплять институциональное доверие, диверсифицировать инвестиционные потоки и повышать эффективность государственного сектора.

**Ключевые слова:** государственное управление, прямые иностранные инвестиции, индекс BTI, экономический рост, реформы, Центральная Азия.

## INTRODUCTION

Foreign direct investment (FDI) is crucial for facilitating economic growth, transferring technology between nations, and transforming economic structures, particularly in transitional economies. Especially, in post-Soviet Central Asia, where governments are moving from planned to market economies, foreign direct investment (FDI) acts as both a money source and a driver for institutional modernization. Evidence increasingly indicates that the volume and quality of FDI inflows are significantly influenced by the institutional and governance conditions of the host country (Tabash, 2024; Shah and John, 2025). At the same time, corporate governance has emerged as a pivotal determinant of the volume and productivity of foreign direct investment (FDI).

This article analyzes the impact of corporate governance quality on foreign direct investment (FDI) and economic growth in six Central Asian nations—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, and Afghanistan—over the period from 2003 to 2024. This study employs data from the Bertelsmann Transformation Index (BTI) and the World Development Indicators (WDI), utilizing a panel-econometric methodology to assess the direct effect of governance quality on foreign direct investment (FDI) inflows and the indirect effect of FDI on economic growth. This research is motivated by two objectives: to provide empirical evidence on the governance–investment–growth relationship within a transitional regional context and to assess the impact of Uzbekistan’s recent institutional reforms aimed at improving corporate governance and attracting foreign investment.

Since 2017, President Shavkat Mirziyoyev has guided Uzbekistan through a significant liberalization of its economy. The National Development Strategy for 2017–2021, as outlined in Presidential Decree No. DP-4947<sup>1</sup>, 2017, outlined five primary objectives. The objectives were to modernize the national economy, reform public administration, and ensure adherence to the rule of law. To achieve these objectives, the government implemented several reforms to enhance the business environment, promote transparency, and strengthen corporate governance. As of February 17, 2026, this document is no longer in force. Decree of the President of the Republic of Uzbekistan at January 28, 2022 “On the Development Strategy of the New Uzbekistan for 2022 — 2026” No. DP-60<sup>2</sup> emphasized the necessity of reducing governmental involvement in the economy and enhancing competitiveness within the private sector.

More recently, a number of new laws and decrees have been put forwards to fortify the governance frameworks of state-owned enterprises (SOEs) and financial institutions. Presidential Resolution No. PQ-289 (2023) established new corporate governance regulations mandating state-owned enterprises to appoint a minimum of one independent supervisory board member and implement formal ethical practices (Davaktiv.uz, 2023). Law No. LRU-907 (2024) facilitated foreign acquisition of state assets, hence increasing the likelihood of such purchases (Dentons, 2024). In 2025, Presidential Decree No. UP-97 provided foreign investors with enhanced incentives for investment, including tax exemptions for specific industries and streamlined customs processes (CIS Legislation, 2025). These measures are designed to enhance governance quality, safeguard investors, and promote transparency. These elements are universally regarded as essential for securing sustained foreign direct investment (FDI).

At the same time, other Central Asian countries are implementing such modifications as well. For example, Kazakhstan implemented its Concept for Enhancing Corporate Governance in the Quasi-Public Sector (2021–2030), while Kyrgyzstan and Tajikistan fortified their anti-corruption legislation. As a result, governance systems across the region continue to evolve, reflecting the diversity of national development paths and institutional priorities. According to BTI (2024), Kazakhstan and Uzbekistan are demonstrating consistent advancement in governance metrics, while other countries are also undertaking reforms aimed at strengthening the rule of law, accountability, and institutional effectiveness. Such diversity provides valuable opportunities for comparative analysis and was one of the reasons for conducting this study.

Theoretical and empirical research provides substantial evidence that effective governance positively impacts foreign direct investment (FDI) and economic growth. Effective governance results in a more stable legal framework, reduced transaction expenses, and increased investor confidence (Saidi et al., 2023). Studies

1 <https://www.lex.uz/docs/-3107036>

2 <https://lex.uz/ru/docs/6968143>



in South Asia, ASEAN, and MENA regions consistently demonstrate that countries with higher institutional quality are more inclined to attract significant foreign direct investment (FDI) inflows and attain rapid economic growth (Tabash, 2024; Soltani and Ghandri, 2024; Shah and John, 2025). Shah and John (2025) employ a fixed-effects panel model to illustrate that corruption control substantially increases FDI inflows in ASEAN economies, but voice and accountability showed a different effect. Similarly, Soltani and Ghandri (2024), employing a dynamic GMM estimator for MENA countries, illustrate that FDI and institutional infrastructure together facilitate long-term growth.

Saidi et al. (2023) emphasize a triangle relationship among governance, foreign direct investment (FDI), and economic growth: governance influences FDI, which in turn stimulates growth, while improvements in growth can further increase institutional capacity. Tabash (2024) reports similar findings for South Asia using completely modified and dynamic OLS methods, confirming that institutional transformation enhances investment attractiveness. Karagiannis et al. (2025) ascertain that governance indicators significantly contribute to cross-country growth variation in African countries by bolstering policy credibility. Kasimov and Saydaliev (2022) demonstrate that in Central Asia, the primary determinants influencing FDI inflows and economic performance are institutional quality, trade openness, and political stability.

In spite of the growing body of evidence, a comprehensive panel study has not been conducted yet to investigate the governance–FDI–growth relationship across all Central Asian nations (including Afghanistan) using BTI indicators from 2003 to 2024. The majority of existing research utilize the World Governance Indicators (WGI) and examine either individual nations or clusters of nations. This presents a substantial gap in understanding the impact of governance dynamics on long-term investment patterns in post-transition countries. Moreover, most prior studies neglect to account for the policy framework influencing Uzbekistan's current privatization and corporate governance changes, which may be modifying the structural determinants of foreign direct investment (FDI) in the region.

Despite the increased openness of Central Asian economies since independence, their foreign direct investment inflows have continued to support the development of key sectors, particularly resource-based industries. Ongoing improvements in corporate governance, decision-making processes, and the protection of minority shareholders are creating favorable conditions for further diversification and the attraction of new investment. At the same time, observable institutional changes provide an important opportunity to deepen understanding of the relationship between governance quality and FDI-driven economic growth. To formulate evidence-based policy in the region, it is important to assess how enhancements in governance contribute to attracting foreign capital and supporting sustainable economic development.

The main objective of this research is to analyze how the quality of corporate governance influences the flow of foreign direct investment (FDI) in Central Asian countries between 2003 and 2024. The study strives to assess how FDI contributes to strengthening the relationship between governance quality and economic progress. Additionally, it aims to identify specific governance factors like legal frameworks, efficient resource allocation, and measures against corruption that have a significant impact on investment patterns and economic advancement. The main goal is to formulate recommendations for policy improvements that can attract long-lasting investments by enhancing governance structures.

The key research questions are:

1. Does higher governance quality attract more FDI in Central Asia?
2. Does FDI serve as a mediator between governance quality and economic growth?
3. Are Uzbekistan's recent governance reforms translating into measurable improvements in investment outcomes?

## REVIEW OF LITERATURE ON THE SUBJECT

Numerous academic studies suggest that the quality of institutions and governance significantly impacts foreign direct investment (FDI). Good governance builds trust, protects property rights, and ensures stable contracts, thereby reducing risks for investors. Studies on emerging economies consistently show that countries with strong governance tend to attract substantial and dependable FDI. Tabash (2024) demonstrates a lasting positive influence of governance on FDI in South Asia using various estimators, highlighting how factors like transparency, anti-corruption measures, and regulatory frameworks increase investment attractiveness. Othman (2022) argues that economic self-sufficiency and effective governance, especially in regulatory practices, are key factors influencing FDI levels in 14 Arab countries. He recommends improving institutional efficiency and cutting bureaucratic obstacles.

Research from different other regions too supports these conclusions. Shah and John (2025) studied ASEAN nations and found that reducing corruption and ensuring political stability had the most beneficial impact

on FDI. Conversely, excessive regulations could have adverse effects. Soltani and Ghandri (2024) utilized dynamic GMM to study 17 economies in the MENA region, concluding that governance and FDI jointly drive economic growth, with the rule of law and governmental effectiveness playing crucial roles. Rodríguez-López and Pérez (2025) used a panel gravity model in Latin America to show that accountability, regulatory quality, and political stability significantly influence variations in FDI inflows among nations. Research from various locations highlights the global importance of governance on FDI, noting that the strength of this relationship depends on institutional development and economic openness.

The quality of governance is crucial for the performance of Foreign Direct Investment (FDI) and its impact on economic growth. Effective governance ensures the efficient utilization of capital inflows, fosters innovation, and facilitates skill acquisition (Karagiannis et al., 2025). The paper indicates that the advantages of foreign direct investment (FDI) are more prevalent in economies with robust legal frameworks. Saidi, Ochi, and Maktouf (2023) investigate the intricate relationship between foreign direct investment (FDI), governance, and economic growth as well in developing nations, asserting that governance not only directly fosters growth but also enhances the growth-promoting impacts of FDI. Kasimov and Saydaliev (2022) found comparable patterns in Central Asia, wherein institutional quality and trade openness significantly influence both foreign direct investment (FDI) and growth trajectories.

Tran and Le (2019) had the same conclusion earlier analyzing 39 emerging nations and illustrating that the influence of FDI on entrepreneurship, and subsequently on economic development and he pointed out that it is contingent upon governance quality. They observe that in countries with poor governance, incoming foreign direct investment (FDI) promotes opportunity-driven entrepreneurship, while in countries with strong governance, outgoing FDI stimulates necessity-driven entrepreneurship. This suggests that the institutional framework affects both the magnitude and the developmental outcomes of investments. Othman (2022) and Soltani and Ghandri (2024) assert that not so good governance may restrict the growth potential of foreign direct investment inflows which may result in misallocation of resources.

Further studies broaden the parameters of this relationship. For example the most recent one by Karagiannis et al. (2025) where he demonstrated, using data from African countries, that enhancements in governmental efficiency and corruption reduction substantially increase long-term growth via improving investment effectiveness. Saidi et al. (2023) and Tran and Le (2019) had presented additional evidence earlier as well that governance influences capital flows, impacting entrepreneurial dynamics, and underscore the dual function of institutions as both enablers and regulators of growth dynamics.

The relationship among governance, foreign direct investment (FDI), and economic growth is well established, however research on this topic is dispersed globally. Particularly, Central Asia lacks extensive evidence, despite its unique transition from planned to market economies marked by diverse governance trajectories. Kasimov and Saydaliev (2022) establish a preliminary regional reference point; yet, their study omits Afghanistan and institutional developments that transpired after 2020.

Furthermore, although Tabash (2024), Saidi et al. (2023), and Shah and John (2025) emphasize strong bidirectional correlations between governance and FDI, most studies rely on the World Governance Indicators (WGI) rather than the Bertelsmann Transformation Index (BTI), which offers a more thorough view of changes in political and corporate governance. The inadequate application of BTI data for assessing governance efficiency, legal frameworks, and market systems may mean a significant research gap. Integrating BTI data may enhance our comprehension of institutional transformations in such transitioning economies as in Central Asia. Other than that, the relationship among governance, foreign direct investment (FDI), and growth is progressively analyzed within the context of sustainable and inclusive development. Lopez-Mendoza et al. (2020) demonstrate that effective governance promotes environmentally sustainable foreign direct investment (FDI), facilitating the attainment of sustainability objectives. Lastly, another study by Agbokah et al. (2022) indicated that foreign direct investment (FDI) fosters growth only when governance surpasses a specific threshold of institutional quality. These findings emphasize that improving governance is not only a political necessity but also an essential economic priority.

## RESEARCH METHODOLOGY

We utilize a panel-econometric approach to assess (i) the impact of governance quality on foreign direct investment (FDI) inflows and (ii) the direct and indirect effects of governance on economic growth. The dataset comprises a longitudinal panel of countries, primarily focusing on Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, and Afghanistan, corresponding to various BTI indexes from 2003 to 2024. The BTI data is gathered biennially, resulting in a limited amount of observations across various countries and years.

### Hypotheses



H1: Better governance quality attracts higher FDI inflows.

H2: Higher FDI inflows raise GDP growth.

H3: Governance quality raises GDP growth directly and indirectly through FDI (Figure 1).

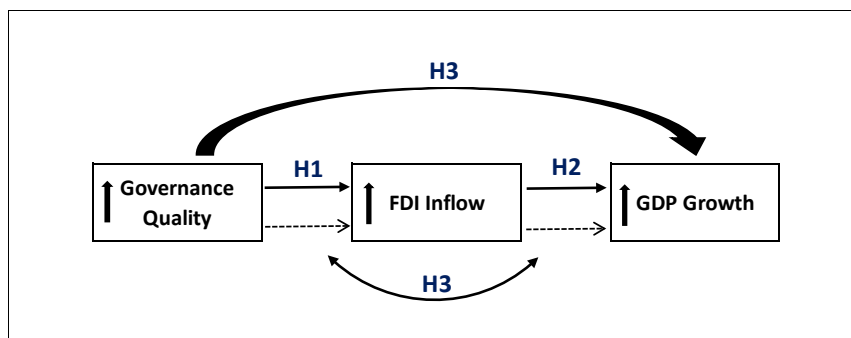


Figure 1. Research framework<sup>3</sup>

The variables under examination are the proportion of foreign direct investment (FDI) inflows relative to Gross Domestic Product (GDP) and the real annual percentage increase of GDP. To ensure uniformity, the data sources utilized are the World Bank's World Development Indicators of each country

The BTI Governance (Management) Index, ranging from 1 to 10, serves as the primary statistic. This index consolidates metrics such as leadership efficacy, resource utilization, consensus among individuals, and collaborative efforts globally. These are all intricately connected to legal frameworks, policy dependability, and corporate oversight.

The BTI Governance (Management) Index, ranging from 1 to 10, is the primary variable to test the outcomes. This index amalgamates metrics such as leadership efficacy, resource utilization, consensus among individuals, and collaborative effectiveness on a global scale. These elements are intricately connected to legal frameworks, policy consistency, and the overall caliber of institutions. It is a comprehensive method to assess the efficacy and extent of governance in both political and economic domains.

We also employ control variables such as Trade Openness (Exports + Imports)/GDP (%), Inflation rate (CPI, %), Natural Resource Rents (% of GDP) and Government consumption (% of GDP) as a way to account for outward orientation, macro-stability signal, control for resource-pull FDI and Fiscal stance of the countries respectively

#### For Model 1: H1 (FDI Equation Testing)

$$FDI_{it} = \alpha_0 + \beta_1 Gov_{it} + \beta_2 X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where:

$FDI_{it}$  = Foreign direct investment inflows (% of GDP) for country  $i$  at time  $t$

$Gov_{it}$  = Governance quality index (BTI Governance or Corporate Governance sub-index)

$X_{it}$  = Vector of control variables (trade openness, inflation, exchange rate stability, etc.)

$\mu_i$  = Unobserved country-specific effects

$\lambda_t$  = Time effects controlling for global or regional shocks

$\varepsilon_{it}$  = Error term

#### For Model 2: H2 (FDI on Economic Growth)

$$Growth_{it} = \alpha_1 + \gamma_1 FDI_{it} + \gamma_2 X_{it} + \mu_i + \lambda_t + u_{it}$$

Where:

$Growth_{it}$  = GDP growth rate (annual, %) for country  $i$  at time  $t$

Other variables are defined as above.

#### For Model 3: H3 (Direct and Indirect Effect of Governance on Growth)

$$Growth_{it} = \alpha_2 + \delta_1 Gov_{it} + \delta_2 FDI_{it} + \delta_3 X_{it} + \mu_i + \lambda_t + \eta_{it}$$

Where:

$\delta_1$  captures the **direct effect** of governance quality on economic growth.

The **indirect effect** (mediation) is obtained by multiplying the coefficients from the previous two models:

$$\text{Indirect Effect} = \beta_1 \times \delta_2$$

The total effect of governance on growth is the sum of direct and indirect effects.

All models are estimated employing fixed-effects panel regression with robust standard errors clustered by country to address heteroscedasticity and serial correlation.

## ANALYSIS AND RESULTS

Table 1 illustrates the changes in six Central Asian economies (Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) from 2003 to 2024. The BTI Governance Index has a mean of 3.44 (SD = 1.05), indicating that the quality of governance is moderate. Foreign Direct Investment inflows average 3.89% of GDP (SD = 3.80), indicating significant variability in investments among countries. The average GDP growth rate is 5.69%, which is typical for transitioning economies. The range might extend from -7.15% to 14.7%. Trade openness, averaging 78.8%, indicates the country's significant reliance on international trade. The average inflation rate is 8.88%, indicating relative price stability. Natural resource rents (mean = 12.8%, SD = 13.8) indicate significant variability among resources, whereas government consumption (mean = 13.1%) suggests limited government involvement in the economy. The data reveal significant disparities between nations and over time, rendering the dataset ideal for panel-data econometric research (Table 1).

**Table 1. Descriptive Statistics<sup>4</sup>**

| Variable     | Obs | Mean     | Std. Dev. | Min       | Max      |
|--------------|-----|----------|-----------|-----------|----------|
| bti_govern~e | 66  | 3.444394 | 1.047506  | 1         | 4.85     |
| fdi_gdp      | 64  | 3.893659 | 3.801125  | -4.854847 | 16.08411 |
| gdp_growth   | 65  | 5.694042 | 4.157584  | -7.148978 | 14.7     |
| trade_open~s | 53  | 78.80906 | 30.50706  | 29.1923   | 146.1061 |
| inflation    | 44  | 8.883134 | 6.30498   | -6.601186 | 26.41866 |
| resourcerent | 53  | 12.78482 | 13.79996  | .3059782  | 56.96589 |
| government~n | 53  | 13.10745 | 3.78481   | 5.941049  | 22.10922 |

Table 2 presents the outcomes of the pairwise correlation analysis. A positive correlation ( $r = 0.086$ ) exists between governance quality (BTI\_Governance) and FDI inflows; however, it lacks statistical significance ( $p > 0.10$ ). This suggests that improvements in governance alone may be inadequate to attract foreign investors to the region. A little positive correlation exists between FDI inflows and GDP growth ( $r = 0.21$ ,  $p \approx 0.09$ ), indicating that foreign investments contribute to economic growth, albeit to a limited extent. The quality of governance exhibits a negative association with economic growth ( $r = -0.38$ ,  $p < 0.01$ ), indicating that nations experiencing rapid growth during reform periods, sometimes due to resource exports or structural transformations, do not necessarily possess superior governance frameworks.

Trade openness exhibits a significant positive correlation with governance quality ( $r = 0.46$ ,  $p < 0.01$ ) and foreign direct investment inflows ( $r = 0.42$ ,  $p < 0.01$ ). This indicates that nations with more commercial openness generally possess superior institutions and attract more international investments. Resource rents demonstrate an inverse relationship with governance ( $r = -0.47$ ,  $p < 0.01$ ), supporting the “resource curse” hypothesis. Government consumption demonstrates a modest positive link with governance ( $r = 0.30$ ,  $p < 0.05$ ) and a negative correlation with foreign direct investment (FDI) ( $r = -0.37$ ,  $p < 0.01$ ), indicating that extensive public sectors may displace private and foreign investments.

All correlation coefficients are less than 0.8 in absolute value, indicating the absence of significant multicollinearity issues among the variables (Table 2).

4 Source: Prepared by the author.

Table 2. Paiwise Correlation<sup>5</sup>

|              | bti_gove          | fdi_gdp          | gdp_grw          | trade_~s          | inflat~n         | resour~t | gover |
|--------------|-------------------|------------------|------------------|-------------------|------------------|----------|-------|
| > n~n        |                   |                  |                  |                   |                  |          |       |
| > —          |                   |                  |                  |                   |                  |          |       |
| bti_govern~e | 1.0000            |                  |                  |                   |                  |          |       |
| fdi_gdp      | 0.0859<br>0.4999  | 1.0000           |                  |                   |                  |          |       |
| gdp_growth   | -0.3824<br>0.0017 | 0.2124<br>0.0919 | 1.0000           |                   |                  |          |       |
| trade_open~s | 0.4593<br>0.0005  | 0.4162<br>0.0022 | 0.1077<br>0.4428 | 1.0000            |                  |          |       |
| inflation    | 0.0384<br>0.8044  | 0.1840<br>0.2434 | 0.1026<br>0.5127 | 0.1614<br>0.3544  | 1.0000           |          |       |
| resourcerent | -0.4710<br>0.0004 | 0.3109<br>0.0234 | 0.2961<br>0.0313 | -0.1735<br>0.2543 | 0.1238<br>0.4654 | 1.0000   |       |
| government~n | 0.2995            | -0.3698          | -0.6303          | 0.1249            | -0.2387          | -0.3884  | 1.0   |
| > 000        | 0.0294            | 0.0070           | 0.0000           | 0.3730            | 0.1673           | 0.0084   |       |

The Table below presents the summary results of all models: the random-effects regression outcomes on the determinants influencing FDI inflows, GDP Growth and GDP growth as a mediation in Central Asia from 2003 to 2024. In all three model, the Hausman test results turned out to be higher than p value

First thing to note in model one was that the explanatory variables account for approximately 39% of the variation in FDI. The BTI Governance Index reveals a positive but statistically negligible effect ( $\beta = 0.92$ ,  $p = 0.287$ ), indicating that governance changes have not yet yielded measurable gains in FDI. Conversely, trade openness ( $\beta = 0.0517$ ,  $p < 0.05$ ) and natural resource rents ( $\beta = 0.1064$ ,  $p < 0.05$ ) considerably augment FDI, suggesting that economies characterized by openness and resource abundance attract increased investment. Inflation and government expenditure remain insignificant, indicating they exert minimal influence on the overall economy. In summary, structural and resource variables appear to exert a greater influence on FDI inflows in Central Asia than the quality of governance. The beneficial impacts of governance quality may require an extended period to manifest.

Moving on with Model 2, it showed that FDI inflows exert a positive albeit statistically small influence on GDP growth ( $\beta = 0.063$ ,  $p = 0.800$ ), suggesting that FDI has not substantially contributed to economic progress in Central Asia. The model explains almost 43% of the overall variation in GDP growth, demonstrating modest explanatory power.

For model 3, the results demonstrate that governance quality adversely affects GDP growth ( $\beta = -2.43$ ,  $p < 0.01$ ), suggesting that governance improvements may temporarily hinder growth due to transitory adjustments.

The coefficient for FDI inflows is positive although insignificant ( $\beta = 0.17$ ,  $p = 0.27$ ), indicating that FDI has not established a robust connection between enhancements in governance and growth. The indirect effect (0.15) is minimal, indicating that foreign direct investment does not significantly contribute to mediation. Government consumption remains markedly negative ( $p < 0.01$ ) among controls, although other variables are statistically insignificant.

Overall, governance improvements appear to exert a short-term adverse yet structurally significant impact on economic performance in Central Asia (Table 3).

5 Source: Prepared by the author.

**Table 3. Combined Summary Table<sup>6</sup>**

| Variable                                | Model 1<br>(H1: FDI as<br>Dependent) | p-Value<br>(H1) | Sig<br>(H1) | Model 2 (H2:<br>Growth as<br>Dependent) | p-Value<br>(H2) | Sig<br>(H2) | Model<br>3 (H3:<br>Mediation –<br>Growth) | p-Value<br>(H3) | Sig<br>(H3) |
|-----------------------------------------|--------------------------------------|-----------------|-------------|-----------------------------------------|-----------------|-------------|-------------------------------------------|-----------------|-------------|
| BTI Governance<br>Index                 | 0.9203                               | 0.287           |             |                                         |                 |             | -2.4281                                   | 0               | ***         |
| FDI inflows (%<br>of GDP)               |                                      |                 |             | 0.063                                   | 0.8             |             | 0.1653                                    | 0.274           |             |
| Trade<br>Openness (% of<br>GDP)         | 0.0517                               | 0.032           | **          | 0.0206                                  | 0.542           |             | 0.0535                                    | 0.12            |             |
| Inflation (CPI,<br>%)                   | 0.0975                               | 0.557           |             | 0.0369                                  | 0.719           |             | -0.0637                                   | 0.667           |             |
| Resource Rents<br>(% of GDP)            | 0.1064                               | 0.034           | **          | -0.0763                                 | 0.28            |             | -0.0187                                   | 0.834           |             |
| Government<br>Consumption<br>(% of GDP) | -0.2113                              | 0.215           |             | -0.7608                                 | 0               | ***         | -0.6393                                   | 0               | ***         |
| Constant                                | -2.3394                              | 0.557           |             | 13.3256                                 | 0               | ***         | 18.2186                                   | 0               | ***         |

The results from all three models demonstrate a consistent pattern regarding the impact of governance quality and foreign direct investment (FDI) on the economic performance of Central Asian economies from 2003 to 2024. In Model 1 (H1), governance quality demonstrated a positive but statistically insignificant connection with FDI inflows, suggesting that institutional reforms have not yet become a substantial determinant of foreign investment in the region. Model 2 (H2) indicated that the coefficient for FDI was positive although not statistically significant, suggesting that the inflows have not resulted in quantifiable growth advantages. In Model 3 (H3), which integrated governance and FDI to examine both direct and indirect effects, governance quality exhibited a pronounced negative direct influence on economic growth; however, the indirect (mediated) effect via FDI was small and statistically insignificant. This result suggests that governance improvements, although essential for long-term institutional stability, may include short-term adjustment costs that temporarily impede growth.

Trade openness consistently displayed a positive but largely inconsequential relationship across models, but government consumption consistently showed a considerable negative impact on growth, highlighting potential inefficiencies in public expenditure. The results combined highlight that foreign direct investment (FDI) and improvements in governance in Central Asia have not yet produced strong growth links, suggesting a gradual and still incomplete structural change process.

This study examined the influence of governance quality on foreign direct investment (FDI) inflows and economic growth in Central Asia from 2003 to 2024, utilizing panel data and random-effects generalized least squares (GLS) analysis. The results demonstrate a multifaceted and dynamic interplay between institutional reform, foreign investment, and regional growth outcomes.

The preliminary model assessed the correlation between enhanced governance and the attractiveness of foreign direct investment (FDI). The coefficient for the BTI Governance Index was positive; nonetheless, it lacked statistical significance. This indicates that governance improvements have not yet become a significant consideration for overseas investors. This is a common trend in transition economies, as institutional enhancements require time to foster trust and cultivate investment confidence (Tabash, 2024; Shah & John, 2025). Foreign direct investment (FDI) in Central Asia primarily focuses on resource acquisition rather than institutional quality. Investors in natural resource industries are typically less impacted by governance challenges, which explains why enhancements in governance have not significantly resulted in an increase in diversified foreign direct investment (FDI).

The second model analyzed the influence of foreign direct investment on economic growth. The positive, but insignificant, coefficient indicates that foreign direct investment has not yet exerted a substantial impact on growth. This discovery corresponds with studies suggesting that the benefits of foreign direct investment are dependent on a host country's absorptive capacity, human capital, and institutional strength (Borensztein et al., 1998; Alfaro et al., 2004). The absence of a robust connection between foreign and native enterprises, along with insufficient technology transfer, may explain the weak correlation between foreign direct investment and economic growth in Central Asia.



The third model integrated governance and foreign direct investment to examine their direct and indirect impacts on growth. The quality of governance exerted a substantial negative direct impact on GDP growth, but the indirect effect via foreign direct investment was minimal and insignificant. Reforming transition economies frequently exhibit similar patterns, wherein short-term challenges precede institutional stability (Roland, 2000). Government expenditure consistently exhibited a robust negative correlation with growth among the control variables. This indicates that public expenditure may lack efficiency and could be displacing private investment. Trade openness remained favorable albeit statistically insignificant, indicating that while regional integration had promise, structural issues continue to impede its growth impact. The findings indicate that governance reforms and foreign direct investment (FDI) in Central Asia remain in the nascent phase of transformation. Institutions are undergoing transformations; nonetheless, they are not yet prepared to attract diverse investments or generate substantial growth spillovers.

## CONCLUSIONS AND SUGGESTIONS

This study examined the relationship between governance quality, foreign direct investment (FDI), and economic growth in Central Asia from 2003 to 2024, utilizing the BTI Governance Index and random-effects GLS estimation. The results highlight the ongoing progress of institutional and economic development in the region. The findings suggest that governance quality positively correlates with FDI inflows, reflecting the growing attractiveness of the region for international investors. This indicates that institutional reforms, alongside recent improvements, are creating a stronger foundation for attracting greater volumes of diversified foreign direct investment (FDI) in the future. Similarly, the positive effect of FDI on growth demonstrates the potential of foreign investment to generate broader economic benefits as domestic absorption capacity and technology transfer mechanisms continue to develop. When examining governance and foreign direct investment (FDI) concurrently, governance exerts an evolving influence on growth, while its contribution through FDI reflects the gradual strengthening of institutional channels. This pattern suggests that governance improvements are laying the groundwork for sustainable economic expansion and long-term development gains.

Policy consequences necessitate continued governance reforms, particularly in improving regulatory quality, contract enforcement, and transparency. To maximize growth advantages, governments should advocate for productive and diverse foreign direct investment (FDI), enhance the efficiency of public expenditure, and foster linkages between foreign and domestic enterprises.

Regarding the limitations of this study, it includes a limited sample size, biannual governance data, and the omission of external shocks such as global crises and geopolitical issues. Future research should increase the sample size, incorporate dynamic modeling, and utilize different governance metrics.

Overall, governance improvements in Central Asia continue to advance. They are establishing a solid foundation for sustained growth through investment, with positive outcomes expected to become increasingly visible over time.

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